


AR34



PomineX LTD.

ANNUAL REPORT 1973



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DIRECTORS

A. Lyndon Bell, University City, Missouri
Paul C. Cabot, Jr., Boston, Mass.
Howard K. Edwards, Tulsa, Oklahoma
N. H. C. Fraser, Toronto, Ontario
John S. Grant, Toronto, Ontario
A. E. MacKay, Toronto, Ontario
Joseph J. Rankin, Toronto, Ontario
Kenneth S. Safe, Jr., Boston, Mass.
Robert L. Segsworth, Toronto, Ontario

OFFICERS

Howard K. Edwards, President
J. J. Rankin, Executive Vice-President
S. George, Vice-President, Production
John S. Grant, Q.C., Secretary
W. Steuerman, C.A., Treasurer
A. N. Edwards, Assistant Secretary

AUDITORS

Clarkson, Gordon & Co., Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce,
Toronto, Ontario
National Bank of Tulsa, Tulsa, Oklahoma

TRANSFER AGENT AND REGISTRARS

The Sterling Trusts Corporation, Toronto, Ontario
The Canadian Bank of Commerce Trust Company,
New York, N.Y.

OFFICES

Toronto, Ontario:
Suite 600, 85 Richmond Street West
Tulsa, Oklahoma:
Suite 405, Skyline East Bldg.,
6111 Skelly Drive
Columbus, Ohio
Suite 10, 6660 Doubletree Avenue

SUBSIDIARY:

Pominex, Inc.
Tulsa, Okla., Suite 405, Skyline East Bldg.,
6111 Skelly Drive

SHARES LISTED:

Toronto Stock Exchange (Ticker Symbol: PER)
U.S. Markets: Over-the-Counter

Directors' Report

This report covers your company's activities for the past year and to date. It also includes financial statements for the year ended December 31, 1973.

1973 was a year of consolidation and decision for the company.

It was earlier reported to you that gas sales contracts had been agreed upon for our production located in the Opal area of Alberta. Your management was optimistic that cash flow would be available from this production by late 1973 or early 1974. The pipeline companies in this area were, however, unable to obtain export permits for the delivery of natural gas to the United States.

It became apparent then that Pominex would not receive income from this property until late 1975. Thus, when an opportunity came to sell the Opal area production, management elected to dispose of the property and an agreement of sale was completed early in the fall of 1973. Five shut-in wells and the non-producing leases were sold for \$400,000 cash plus a guaranteed royalty of \$11,200 per month for five years, commencing January 1, 1975.

Cash realized on the sale, which was approved by shareholders at a special meeting this spring, has been applied against the company's bank indebtedness. The balance of the funds are providing working capital for Pominex' continuing operations.

Unsettled economic and fiscal conditions which exist not only in Canada and the United States but world-wide, have greatly affected the ability of companies the size of Pominex to raise funds for exploration programs. In the U.S. legislation was pending which would have

drastically hindered the level of petroleum exploration in that country. In Canada, new taxes have been levied against western producers, taking the form of a higher price for crude but not reflected in the returns to the producer.

The combination of these legislative and taxation changes, together with the generally unsettled conditions world-wide, make it very difficult to raise venture capital.

Early in the fall of 1973, the Public Utilities Commission of Ohio passed a resolution which established the guidelines for industries within that state to explore and produce oil and gas for their own account. Since there was already a shortage of natural gas for most of the industries within the state — in fact many of the industries were under curtailment procedures — this ruling established an incentive for the companies to seek supplemental fuel.

Your company has been negotiating with a number of industrial clients since early fall of 1973. Quite recently, management consummated an exploration contract with a major manufacturing and petrochemical company for \$1,900,000. These funds are to be expended in the drilling of approximately 20 wells for supplemental fuel for that company's use within the state of Ohio.

Pominex will supervise the drilling, completion, laying of pipelines and participate in 25% of the revenue. The ruling handed down by the P.U.C.O. will establish guidelines for all industry within the state to drill and produce its own reserves and transport them through an intrastate carrier.

We anticipate the winter of 1974 will see substantial fuel shortages in the northeastern part of the United States. We therefore intend to proceed actively in negotiations with various

industrial clients in order that we may help them solve some of their supplemental fuel problems. Pominex could well be drilling and participating in up to 35 wells in the course of this year.

To facilitate exploration programs in the northeastern United States for industries, Pominex Ltd. has formed a wholly-owned subsidiary, Pominex, Inc., and has elected the following: H. K. Edwards, Tulsa, Oklahoma, president and chief executive; J. J. Rankin, Toronto, Ontario, executive vice-president; J. S. Grant, Toronto, Ontario, secretary; all directors. Other officers are: W. Steuerman, treasurer; M. L. Johnson, assistant secretary; Sam A. George, vice-president.

Pominex, Inc. has established an office in Columbus, Ohio, and it will have the direct responsibility of administering the program which is now under way.

In the North Sea your company has completed its trade of various seismic information with two major companies. These records and material have been consolidated and a new evaluation program has been completed. Management is pleased with the preliminary results.

It is our understanding that a major oil company is planning on off-setting our Whiterock Block 9-11 in the North Sea by early summer. Pominex will watch with interest the drilling of this project in order that we may further evaluate this asset.

Following the fiscal year end, Pominex signed an agreement to acquire a substantial holding in a company with producing base and precious metals interests — a holding which should add significantly to our cash flow.

Total consideration paid and to be paid

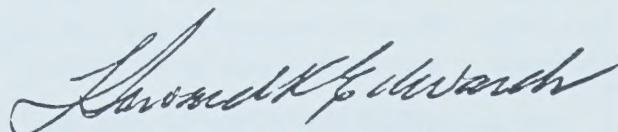
is \$725,000, of which \$425,000 is cash and \$300,000 is in Pominex convertible debentures. The conversion option expires within 18 months.

Subject to acceptance of the agreement by regulatory authorities, and confirmation by shareholders, your company will share ownership in the control block of shares of Silver Eureka Corporation. This Nevada-based company has controlling interest in an operating mine in France, producing gold, silver, copper, bismuth, arsenic and sulphuric acid. After writeoffs but before taxes, the profit of the French mine for the first quarter of 1974 was approximately \$1,750,000. Other gold prospects are also held in France. In addition, the company has interests in properties in the U.S., covering precious and base metal prospects and former producing claims. (See excerpts of consultant's report on page 4).

The directors believe this can represent an excellent minerals industry investment and urge shareholders to favour your management with an affirmative note to the confirming resolutions.

Management plans to continue an aggressive program of drilling for, and the production of, oil and gas for industrial clients. Participation in exploration of mineral claims and investment in mining properties is also planned.

On behalf of the board,



Howard K. Edwards,
President.

Toronto, Ontario
May 31, 1974

SILVER EUREKA CORPORATION

Extracts from a report by William Hill, consulting mining engineer, dated May 10, 1974, reviewing the producing and exploration interests of Silver Eureka Corporation.

Producing Properties:

The producing interest of Silver Eureka Corporation is operated by Societe des Mines et Produits Chimiques de Salsigne, located near Carcassonne, in south central France.

Products of the mine break down as follows (approximate percentage of sales estimated for 1974): gold, 67%; arsenic, 11%; silver, 5.5%; copper, 5.5%; bismuth, 5.5%; sulphuric acid, 2%; slag, 3.5%.

Projected cash flow for 1974, based on results of the first quarter of 1974, is: sales — \$12,600,000; cost of operation, \$5,900,000; profit before tax — \$6,700,000.

The write-offs for mine and plant improvement and exploration, including exploration expenditure on projects, outside of France, if they are approved by the French Government, can be written off before taxes. Regarding this latter type of expenditure, Pominex solicitors have been advised by representatives of the French Government that applications for bonafide exploration programs would receive favourable consideration. It is estimated that after write-offs, excluding exploration outside of France, after tax cash flow of between \$3,400,000 and \$5,000,000 would result at present prices. This could be used for payment of dividends to shareholders and for investment.

It is anticipated that a part of cash flow before taxes would be channelled into exploration programs with Pominex and/or Silver Eureka in Canada, the United States or other countries.

Ore Reserves: The mine in past years produced what is locally termed "traditional ore". Another zone termed the "3a.2x contact" holds possibilities for extensive reserves. This contact zone has different characteristics in mineral content and metallurgical properties. (For this reason reserves are listed separately). At present, mine production is 10-15% contact ore and 85-90% traditional.

Reserves of traditional ore as of January 1, 1974 are reported as: Probable ore, 398,373 tons with 0.37 oz/ton gold; Possible ore, 810,488 tons with 0.63 oz/ton gold.

Reserves available in the contact zone are 1,580,000 tons of 0.25 oz/ton of gold classified as possible ore. Within this zone a further 10,000,000 tons of ore with similar characteristics to the possible ore can be geologically inferred. This ore although lower in gold content, is richer in arsenic and bismuth. At today's prices for arsenic, bismuth and gold this material is now ore whereas it was previously uneconomic.

The grade of the contact ore zone is as follows: Gold, 0.25 oz/ton; Silver, 1.15 oz/ton; Copper, 0.083%; Bismuth, 0.134%; Sulphur, 12.0%; Arsenic, 11.9%.

The Salsigne mine is found in a structure with similar characteristics extending over another 25 miles, open for exploration, and a similar occurrence in Canada would already have undergone extensive exploration.

Indirect Exploration Interests:

(a) **Through Silver Eureka** — 25% Ruby Hill Mining Company. (The remaining 75% is held by Richmond Eureka Mining Company).

The Ruby Hill mine is located in Eureka, Nevada, and has reserves of 3,000,000 tons of 0.16 oz/ton gold, 5.65 oz/ton silver, 3.7% lead

and 8.3% zinc. The property is under lease for a 13.06% royalty on operating profits to a syndicate comprised of Cyprus Exploration Company Limited, Hecla Mining Company Limited, each with 30% interest, and Silver Eureka Corporation and Richmond Eureka Mining Company, each with 20% interest. This 20% is "carried" but Silver Eureka has to pay 20% of pre-production costs to participate in 20% of the net profits of the mine. The lease is good until 1977 with \$150,000 per year committed to work on the property.

(b) **Through Cheni S.A.** — 100%: i. Corsica Properties, Canari Concession. Cheni holds a concession in Corsica with nickel and asbestos. Some asbestos was produced in the late 1940's and there is an area with a reported 1,000,000 tons of 1% nickel. The property is under option to Noranda with Cheni to receive a 3% royalty.

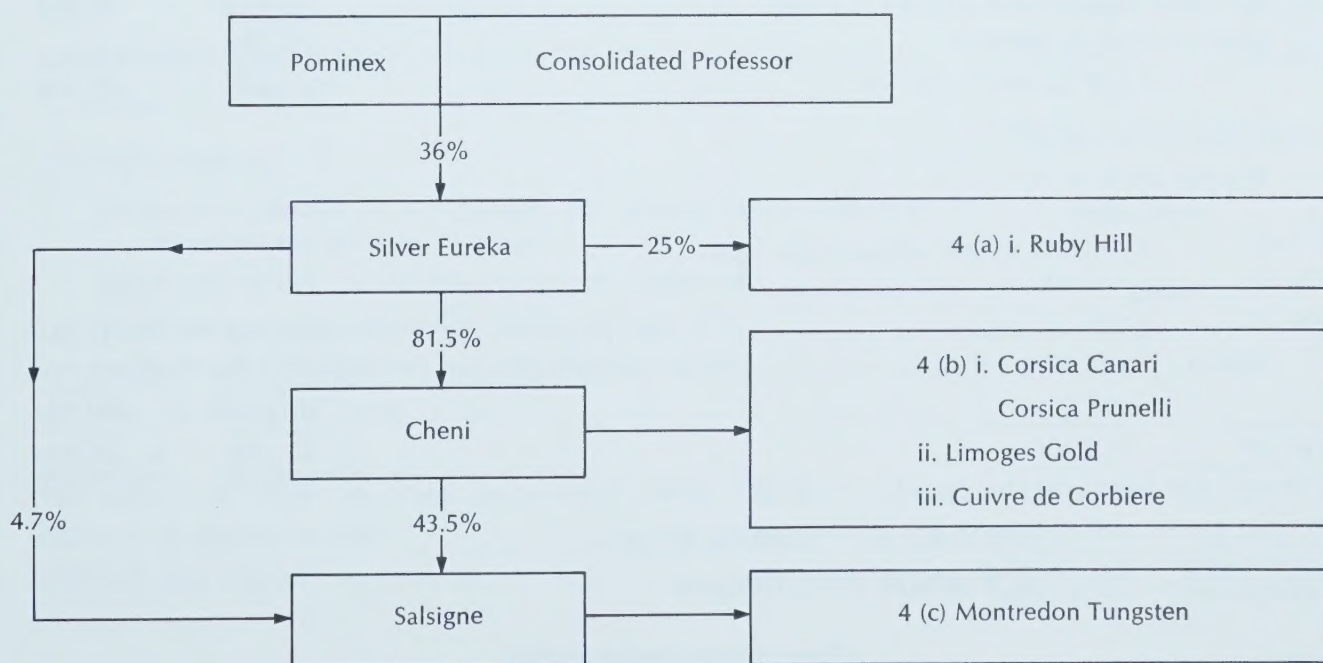
Prunelli Concession. Cheni owns a copper concession in Central Corsica.

ii. Limoges area gold concessions. Cheni holds 700 hectares in an old gold producing area in Central France.

iii. Mines de Cuivre de Corbieres (M.C.C.) Cheni holds a copper prospect in the Corbiere Mountains, west of Berginon. A vein 1,000 feet long has been exposed with values of copper and silver.

(c) **Through Salsigne** — 100%: i. Compagnie Miniere de Montredon. Located in Southern France, the properties were producers of Wolframite. The property is now under option to a syndicate formed of Penarroja, BRGM, and Salsigne. It is reported that the property has indicated reserves of approximately one million tons of 1% WO₃.

Interest Ownership



POMINEX LTD.*(Incorporated under the laws of Ontario)***CONSOLIDATED BALANCE SHEET****ASSETS**

	December 31	
	1973	1972
CURRENT:		
Cash and funds on deposit	\$ 16,771	\$ 1,495
Accounts receivable and accrued interest	19,942	9,528
Prepaid expenses	11,689	11,680
Total current assets	48,402	22,703
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and depletion (schedule 1)	109,474	101,496
DEFERRED EXPLORATORY AND DEVELOPMENT COSTS	211,138	244,413
INVESTMENT IN JOINT EXPLORATION VENTURE COMPANY (note 2) ..	20,267	20,267
OTHER ASSETS:		
Deposits	8,349	7,355
Investment in other mining and oil and gas exploration companies and ventures (note 2)	32,836	42,604
Total other assets	41,185	49,959
	<u>\$ 430,466</u>	<u>\$ 438,838</u>

LIABILITIES

CURRENT:		
Bank loan (note 3)	\$ 223,000	\$ 78,000
Accounts payable and accrued liabilities	84,950	39,958
Note payable to director	15,500	
Total current liabilities	323,450	117,958
SHAREHOLDERS' EQUITY:		
Capital (note 4) —		
Authorized:		
5,000,000 shares without par value		
Issued:		
2,931,671 shares	2,637,584	2,637,584
Deficit	(2,530,568)	(2,316,704)
	107,016	320,880
	<u>\$ 430,466</u>	<u>\$ 438,838</u>

On behalf of the Board:

HOWARD K. EDWARDS, Director.

A. LYNDON BELL, Director.

(See accompanying notes)

Consolidated Statement of Operations and Deficit

	Year ended December 31	
	1973	1972
INCOME:		
Income (loss) from oil and gas operations (schedule 2)	\$ 22,245	\$ (396)
Interest income and sundry credits	424	2,001
Income from investment in limited partnership	9,902	
Total income	<u>32,571</u>	<u>1,605</u>
GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and directors' fees	13,394	1,588
Accounting, office services and rent	33,719	27,956
Interest and bank charges	16,218	745
Legal and audit	21,056	8,135
Transfer agency	8,517	6,191
Publicity	6,047	3,654
Travel	17,363	7,926
Telephone	5,017	2,790
Shareholder reports and meetings	9,610	7,226
Depreciation	78	14
Other	10,463	4,864
Total general and administrative expenses	<u>141,482</u>	<u>71,089</u>
OPERATING LOSS FOR YEAR	<u>(108,911)</u>	<u>(69,484)</u>
OTHER CHARGES:		
Write-off of certain oil concessions and related exploratory and development costs in Peru (net)		78,137
Other exploratory and development costs written off	69,622	40,355
Investment in joint exploration venture written off		21,949
Write-down of investment in exploration company	29,196	
Loss on sale of oil leases	6,135	
	<u>104,953</u>	<u>140,441</u>
NET LOSS FOR YEAR (per share 1973 — \$0.07; 1972 — \$0.07)	(213,864)	(209,925)
DEFICIT, beginning of year	(2,316,704)	(2,106,779)
DEFICIT, end of year	<u>\$ (2,530,568)</u>	<u>\$ (2,316,704)</u>

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1973	1972
SOURCE OF FUNDS:		
Income from investment in limited partnership	\$ 9,902	
Interest income and sundry credits	424	\$ 2,001
Income from oil and gas operations 22,245		
Add charges against income not involving a current outlay of funds —		
Depreciation, depletion and amortization .. 690	22,935	5,417
Proceeds from disposal of oil leases in Ohio	13,000	
Reduction in net current liabilities on write-off of Peruvian assets		39,690
Reduction of drilling deposit		2,646
	<u>46,261</u>	<u>49,754</u>
APPLICATION OF FUNDS:		
General and administrative expenses 141,482		
Less depreciation	78	
	141,404	71,075
Exploratory and development costs	59,330	67,249
Purchase of oil leases (net, in 1972, of rebates received)	22,177	34,472
Purchase of furniture and fixtures	651	142
Advance to joint exploration venture		38,216
Increase in drilling deposits and other	2,492	
	<u>226,054</u>	<u>211,154</u>
Decrease in working capital	\$ (179,793)	\$ (161,400)
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets —		
Cash and funds on deposit	\$ 15,276	\$ (140,565)
Accounts receivable and accrued interest	10,414	(61,939)
Prepaid expenses	9	(6,170)
	<u>25,699</u>	<u>(208,674)</u>
Increase (decrease) in current liabilities —		
Bank loans	145,000	78,000
Accounts payable and accrued liabilities	44,992	(125,274)
Note payable to director	15,500	
	<u>205,492</u>	<u>(47,274)</u>
DECREASE IN WORKING CAPITAL	(179,793)	(161,400)
WORKING CAPITAL (DEFICIENCY), beginning of year	(95,255)	66,145
WORKING CAPITAL (DEFICIENCY), end of year	<u>\$ (275,048)</u>	<u>\$ (95,255)</u>

(See accompanying notes)

Consolidated Statement of Deferred Exploratory and Development Costs

FOR THE YEAR ENDED DECEMBER 31, 1973

	Balance December 31, 1972	Additions in 1973	Sold, transferred or written off in 1973	Balance December 31, 1973
Exploratory and development expenses in Ohio:				
Total development expenses	\$ 15,197		\$ 15,197	
Less accumulated amortization	10,142	\$ (176)	10,318	
	<u>5,055</u>	<u>(176)</u>	<u>4,879</u>	
Exploratory and development expenses in the Opal field in Alberta (note 6)	<u>181,233</u>	<u>26,756</u>		\$ 207,989
Joint venture and other explorations:				
In Peru	57,986		57,986	
Ohio	139	31,586	28,576	3,149
Other countries		988	988	
	<u>58,125</u>	<u>32,574</u>	<u>87,550</u>	
	<u>\$ 244,413</u>	<u>\$ 59,154</u>	<u>\$ 92,429</u>	<u>\$ 211,138</u>
Sold			\$ 4,879	
Transferred to investments			17,928	
Written off			69,622	
			<u>\$ 92,429</u>	

(See accompanying notes)

Auditors' Report

To the Shareholders of
Pominex Ltd.:

We have examined the consolidated balance sheet of Pominex Ltd. and its subsidiary as at December 31, 1973 and the consolidated statements of operations and deficit, deferred exploratory and development costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Pominex Ltd. and its subsidiary as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
May 28, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Notes to the Consolidated Financial Statements

DECEMBER 31, 1973

1. Significant accounting policies

Change of corporate name and principles of consolidation

By Articles of Amendment dated June 22, 1973 the name of the corporation was changed from Peruvian Oils & Minerals, Limited to Pominex Ltd.

The consolidated financial statements include the accounts of the corporation and of the subsidiary, Pominex, Inc., a wholly-owned United States corporation.

Foreign exchange —

The financial statements are expressed in terms of Canadian currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

Current assets and current liabilities —

At the closing rate of exchange prevailing at December 31, in each year.

Expenditures on property and equipment, deferred exploration and development and investments —

At the rates of exchange in the years in which expenditures or investments were made.

Revenue and expenses —

At the average rates of exchange for the year, except that provisions for depreciation, depletion and amortization and exploratory and development costs, property and equipment, and other costs written off are at the rates prevailing when the relative expenditures were made.

Exploratory and development costs —

It is the corporation's general policy to defer exploratory and development costs in the accounts when incurred, and to write off against income in each year the exploratory and development costs relating to projects that are then either abandoned or considered to be of no value. The costs deferred at any time do not necessarily reflect present or future values.

Deferred exploratory and development costs relating to producing properties are amortized at the same rate used for depletion of the related property.

Property and equipment and related depreciation and depletion —

The costs of new property and equipment are capitalized. Expenditures for maintenance and repairs of property and equipment are charged to operations.

When properties are retired or disposed of, it is the corporation's general policy to remove from the accounts the cost and accumulated depreciation and depletion of such properties as well as the related deferred exploratory and development costs, and to record the resulting gain or loss in income for the year.

Depreciation is provided on office furniture and fixtures on a declining balance basis. No depreciation or depletion is provided on other property unless production has been derived from such property. Depreciation and depletion on lease costs and operating wells are provided on net unamortized cost, at rates based on the percentage of the quantity of oil or gas produced during the year to the quantity of the estimated recoverable oil or gas reserves at the beginning of the year. This is commonly known as the unit of production method.

Income taxes —

The corporation's accounting policy with respect to income taxes is referred to in note 5 below.

2. Investments

The corporation's investment in a joint exploration venture company consists of:

Whiterock Oil and Gas Limited

(40% owned) —

40 shares	\$ —
Advance	<u>20,267</u>

The investment is carried at an amount equal to the corporation's equity in the costs incurred by Whiterock in a joint exploration project in the North Sea.

The investment in and advance to other mining and oil and gas exploration companies and ventures is comprised of:

Compania Minera del Madrigal (a limited U.S. partnership) 2.065% limited partnership interest in profits, at cost	\$ 17,928	
Antipodes Explorations Limited — 278,319 shares, at cost less amounts written off	10,129	
5% redeemable convertible debentures due September 1, 1975, at cost	1,121	
Advance	<u>1,500</u>	12,750
Antaeus Resources Corporation — 589 shares, at cost	2,158	
	<u>\$ 32,836</u>	

No reliable market quotations are available for the above venture interests, shares and debentures.

3. Bank loan

The corporation's interest in its Alberta properties and certain accounts receivable were pledged as security against the bank loan, which bank loan was repaid subsequent to the year end on the disposal of the corporation's interest in such Alberta properties, as referred to in note 6 below.

4. Share capital

Stock options—

The president of the corporation has been granted an option to purchase a total of 150,000 shares of the corporation at a price of 50¢ per share, exercisable at the rate of

50,000 shares, on a cumulative basis, in each of the years ending June 30, 1973 to 1975 inclusive. Subsequent to the year end a total of 100,000 shares have been taken up under this option.

Convertible debentures —

The corporation proposes, subject to shareholder approval, to issue \$300,000 principal amount of debentures convertible into shares of the corporation, in connection with the acquisition of the interests of Jorex Limited in a share option agreement subsequent to the year-end, as referred to in note 6 below.

5. Income taxes

In arriving at net income (loss) for each year, the corporation has computed income taxes on the basis of claiming exploration and development expenditures to the extent that they are an allowable deduction for tax purposes in the year, regardless of the treatment followed in the accounts.

As is the case with other companies in the industry in Canada, the corporation has not believed that tax allocation in respect of exploration and development costs has been appropriate. Accordingly, no provision has been made for deferred income taxes relating to such costs.

If the tax allocation basis had been followed with respect to such costs in current and prior years, the net loss for 1973 would have been reduced by \$14,000 or \$0.005 per share (\$23,000 or \$0.01 per share in 1972) and the cumulative amount of deferred income taxes to December 31, 1973 related to such costs net of other timing differences would be nil (1972 — \$14,000).

In 1974, as required by securities commissions in Canada, the company intends to follow tax allocation accounting in respect of all timing differences.

Of the property and equipment and deferred exploratory and development costs

carried in the consolidated accounts at \$320,612 at December 31, 1973, \$294,585 related to expenditures made in Canada and \$26,027 related to expenditures made outside Canada. For Canadian income tax purposes \$208,500 of the expenditures are available as an offset against income otherwise subject to tax in future years. Accumulated tax losses aggregating \$188,600 (the major part of which expires in 1978) are also available as an offset against future taxable income (after the deduction of the above-mentioned exploratory and development costs).

6. Material subsequent events

(a) Sale of Opal interests in Alberta

Subsequent to the year end, with shareholder approval, the corporation has sold its Opal area properties in Alberta (which are carried in its accounts at December 31, 1973 at an aggregate cost of \$294,585), for a consideration consisting of cash of \$400,000, and minimum royalties of \$11,200 per month (\$134,400 per annum) over a five year period commencing in January, 1975.

A total of \$130,924 of the accumulated costs of \$294,585 will be written off against the cash purchase price received, and the balance will be amortized pro-rata over the term of the royalty agreement.

(b) Option to acquire shares in Silver Eureka Corporation

Under an agreement dated May 27, 1974, Pominex acquired for \$350,000, the interest of Jorex Limited in an option to acquire 1,000,000 shares (approximately 36% of the outstanding shares) of Silver Eureka Corporation ("Silver Eureka"). The purchase of Jorex's interest is to be satisfied by the issue to Jorex of \$300,000 10% convertible

debentures of Pominex, referred to further below, and cash of \$50,000. The agreement is subject to the approval of the shareholders of both Pominex and Jorex, and of regulatory authorities.

Jorex and New Calumet Mines Limited ("New Calumet") have paid U.S. \$500,000 under the terms of the option, which requires total payments of U.S. \$1,250,000, and have participated equally in the option. New Calumet has assigned all of its interest in the option to Consolidated Professor Mines Limited.

Payment of U.S. \$150,000 under the terms of the option was made on May 28, 1974, and one-half of this amount has been paid by Pominex. The option to acquire the shares of Silver Eureka has been exercised effective May 28, 1974, and the following additional payments will be required, of which Pominex's share will be one-half pursuant to the option agreement:

August 27, 1974	\$150,000
November 27, 1974	\$150,000
February 27, 1975	\$150,000
April 27, 1975	\$150,000

The \$300,000 convertible debentures of Pominex referred to above will mature 18 months after their issue date and will bear interest at the rate of 10% per annum, payable half-yearly. The debentures will be secured by a first floating charge on the assets of Pominex, which security will be subordinate to the interests of any present or future bank loans. The debentures will be convertible at the rate of one fully-paid share of Pominex for every amount of principal and interest that is equal to the lesser of 75 cents or the closing market price for Pominex shares on the day preceding the date of conversion. The convertible debentures will be redeemable by Pominex on 60 days notice, at par and accrued interest.

Consolidated Schedule of Property and Equipment

SCHEDULE 1

		December 31	
		1973	1972
CANADA:			
Alberta — oil leases — at cost (note 6)		\$ 86,596	\$ 86,596
UNITED STATES:			
Ohio — oil leases — at cost	\$ 22,177		
Less accumulated depletion	—	22,177	13,814
Machinery and equipment — at cost less accumulated depreciation			958
Oklahoma — office furniture and fixtures — at cost	793		
Less accumulated depreciation	92	701	128
Total property in the United States		22,878	14,900
Total property and equipment		\$ 109,474	\$ 101,496

SCHEDULE 2

Consolidated Schedule of Income from Oil and Gas Operations

		Year ended December 31	
		1973	1972
INCOME:			
Sale of crude oil and natural gas		\$ 1,450	\$ 7,902
Operating fees		2,880	
Drilling management and other revenue		20,270	
		24,600	7,902
PRODUCTION EXPENSES:			
Operating expenses		1,519	1,301
Insurance and taxes		146	1,185
Depletion of oil leases		481	4,049
Amortization of development costs		176	1,482
Depreciation of machinery and equipment		33	281
		2,355	8,298
INCOME (LOSS) FROM OIL AND GAS OPERATIONS		\$ 22,245	\$ (396)

(See accompanying notes)



ANNUAL REPORT 1973

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

AR34

For the Six Months
Ended June 30

1973 1972

Source of Funds

Income (loss) from gas
and oil production
and related fees \$ 3,503 \$(236)

Add depreciation,
depletion and
amortization – not
an outlay of funds 690 3,144

4,193 2,908

Interest income — 1,133

Cancellation of
Peruvian surface
taxes payable on
annulled concessions — 61,469

Reduction of drilling
deposits – Alberta — 2,873

Proceeds of sale of
Ohio (Erb) lease 13,000 —

17,193 68,383

Application of Funds

General and adminis-
trative expenses
(net of depreciation) 54,199 28,832

Exploratory and
development costs 28,466 32,704

Purchase of
office furniture 651 —

Purchase of
gas leases – Ohio 4,734 —

Purchase of lease
equipment – Ohio 1,965 —

Advances to other oil
exploration company — 23,016

Additional deposits 1,519 —

91,534 84,552

Decrease in working
capital during period 74,341 16,169

Working capital
(deficiency) –
beginning of period (95,255) 66,145

Working capital
(deficiency) –
end of period \$(169,596) \$49,976



(FORMERLY PERUVIAN OILS & MINERALS, LIMITED)

CANADA:

Suite 600, 85 Richmond St. W., Toronto, Ontario M5H 2E8

U.S.A.:

9511 East 46th St., Tulsa, Oklahoma, 74145



INTERIM REPORT

JUNE 30, 1973

TO THE SHAREHOLDERS:

As you will note in the enclosed interim financial statements for the six months ended June 30, 1973, net loss has been cut from \$109,571 in the corresponding 1972 period to \$57,817. At the same time we have increased our general administrative expenses by \$25,000 in order to staff the planned drilling program for North Central Ohio. The company expects to recover part of these costs since the proposed private drilling program will, in future, absorb most of these expenses.

At the last annual general meeting of shareholders, approval was given to change the name of the corporation to Pominex Ltd. since the company, as Peruvian Oils & Minerals, was no longer active in Peru.

Two new directors and two officers were also elected. The new directors are Messrs. A. E. MacKay and N. H. C. Fraser, both Canadians whose counsel on exploration activities is welcomed. The new officers are Mr. J. J. Rankin, executive vice-president, Toronto, and Mr. Sam A. George, vice-president, production, Worthington, Ohio.

With the increase in directors and staff, additional technical and financial skills are available to administer the company's proposed private drilling program which is expected to become effective September 15, of this year.

We have completed our second well in Clark Township, Holmes County, for 1,070,000 cubic feet of gas and 25 barrels of oil per day. It has now been turned into the East Ohio Gas Co. line and is delivering gas along with our discovery well Troyer #1. There have recently been eight new wells drilled near Pominex leases and seven more locations have been staked. Pominex plans to continue drilling operations in this area.

Preliminary hearings have been completed in Alberta on the proposed export permit of Pan-Alberta. The approval of this permit would allow your company to deliver 35 million cubic feet of gas per day at 38¢ per thousand cubic feet, escalating at 1¢ per thousand cubic feet annually. Results of these hearings are expected by late fall of this year.

Shareholders will be interested to learn that, in the North Sea, Union Oil will spud its well test next month on the permit held immediately to the east of Whiterock Oil and Gas concession 911. The Union block is immediately west of the Mobil Beryl discovery block on which the first well tested 5,500 barrels per day. Pominex has 20% net working interest in the Whiterock block.

The management is concentrating on increasing oil and gas reserves and to establish immediate income and cash flow for your company. We anticipate a very active fourth quarter.

On behalf of the Board



Howard K. Edwards,
President.

August 10, 1973

STATEMENT OF OPERATIONS

	For the Six Months Ended June 30	
	1973	1972
Income:		
Income (loss) from gas and oil production and related fees	\$ 3,503	\$(236)
Interest income	—	1,133
	<u>3,503</u>	<u>897</u>
General and administrative expenses	54,277	28,832
Operating loss for period	<u>50,774</u>	<u>27,935</u>
Other credits and charges		
Cancellation of surface taxes payable resulting from annulment of concessions in Peru	—	(61,469)
Net loss on disposal of oil lease in Ohio	6,137	—
Development expense written off	906	107,892
Property and equipment written off	—	35,213
Net loss for period	<u><u>\$57,817</u></u>	<u><u>\$109,571</u></u>